



# Legislative Research Council

# MINUTES

## Legislative Planning Committee

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**First Meeting  
2014 Interim  
June 16, 2014**

**Room 413  
State Capitol  
Pierre, South Dakota**

The first meeting of 2014 for the Legislative Planning Committee was called to order by Chair Representative Munsterman, at 10:15 a.m. (CDT) in Room 413 of the State Capitol, Pierre, South Dakota.

A quorum was determined with the following members answering the roll call: Representative Scott Munsterman, Chair; Senator Mike Vehle, Vice Chair; Senators Corey Brown and Bruce Rampelberg; Representatives Kristin Conzet, Jacqueline Sly, and Susan Wismer. Members excused: Senators Tom Jones, Billie Sutton, and Ryan Maher; and Representative Brian Gosch.

Staff members present included Clare Charlson, Principal Research Analyst; David Ortbahn, Chief Research Analyst; Annie Mehlhaff, Chief Fiscal Officer; and Rena Ortbahn, Legislative Secretary.

*(NOTE: For purpose of continuity, the following minutes are not necessarily in chronological order. Also, all referenced documents distributed at the meeting are attached to the original minutes on file in the Legislative Research Council (LRC). Due to technical difficulties this meeting was not web cast live.)*

**Chair Munsterman** began by reading the Executive Board's assignment for the committee as follows:

"The LRC Executive Board requests the Legislative Planning Committee to conduct a two year study of K-12 education to improve educational outcomes in South Dakota. The study should include the following: the education funding formula; all revenues, expenditures, and accounting practices for education; salary needs; school district budget reserves; and levels of various education funding tax levies."

Chair Munsterman said the committee will begin by defining the educational outcomes on which it will focus and ascertaining what it means to improve those outcomes.

**Senator Vehle** is interested in indicators that show where the education system has been and where it is going.

**Representative Wismer** questioned how this committee's study will differ from the education study conducted in the previous year. **Representative Sly** said last year's committee focused on technology, graduation rates, capital outlay, and opt outs and that this year the committee has been given a different focus. Chair Munsterman said focusing on outcomes will be a more comprehensive approach.

## **The Funding of K-12 Education in South Dakota**

**Mr. Jim Terwilliger**, State Economist, Bureau of Finance and Management, introduced the department's new budget analyst, Ms. Kelsey Hansen.

Mr. Terwilliger said the Governor's Office is also doing a study on capital outlay and other revenues outside the general education formula.

He proceeded with a presentation entitled, "The State Aid to General Education Formula & General Education Levy Adjustment", contained within the presentation entitled, "K-12 Education Funding" (**Document #1**).

Mr. Terwilliger gave a brief summary of the components and history of state aid to general education. The base formula starts with the same amount per student and he said that, per statute, the current ratio of 53.8% state funding and 46.2% local funding that provide for the general funding for K-12 schools must remain constant.

Since 2007, the K-12 enrollment has steadily increased leading to increased school levies. He said this has helped to counteract the decrease in property taxes that began in 1998.

Mr. Terwilliger noted there are three steps to the formula: 1) determining local need (total resources needed); 2) determining local effort; and 3) determining the state share (local need less local effort). He then went into detail about each of these three steps.

Mr. Terwilliger said that the per student allocation (PSA), for school FY 2015 has been set by this year's Senate Bill 188 at \$4,781.14. Each school fiscal year thereafter, the PSA will be the previous fiscal year's PSA increased by the index factor.

He said the statutorily required index factor of 1.6% provided a starting point for determining the per student allocation. The Legislature appropriated a 3.36% increase for FY 2015 which is about 1.8% higher than the statute required.

Mr. Terwilliger said that beginning in FY 2011 state aid payments are based on the current year's fall enrollment instead of the enrollment from the prior year.

Chair Munsterman inquired as to where the PSA would be if it hadn't been for the economic downturns in fiscal years 2011 and 2012. Mr. Terwilliger said he will provide the committee with this information.

Reviewing the small school adjustment, Mr. Terwilliger said the adjustment was frozen at the FY 2006 level. The adjustment is gradually reduced the closer a school district's enrollment gets to the 600 student level at which point a school district no longer is entitled to it.

He said the Limited English Proficiency (LEP) adjustment provides additional funding based on the number of eligible students in the school district.

**Ms. Tami Darnall**, Director of the Division of Finance and Management, Department of Education, answered Representative Wismer's questions concerning if Hutterite students qualify for the LEP.

Chair Munsterman asked how much the small school adjustment would cost today if it had not been previously frozen at the 2006 level. Ms. Darnall said she will provide the committee with this information.

Mr. Terwilliger noted that the property tax levies are different for the three classes of property. The FY 2015 levies have been established per Senate Bill 37 from the 2014 session.

In calculating local effort, he explained that since property taxes are based on a calendar year and state aid is calculated on a fiscal year basis, the FY 2015 local effort is based on half of the taxes payable in 2014 (July-December) and half of the taxes payable in 2015 (January – June).

Mr. Terwilliger explained the Cutler/Gabriel method of setting levies. He noted that 53.8% is the target for state aid for FY 2015. However, the actual percentage will vary slightly since in budgeting, they must take into consideration the previous year, FY 2014, and the next year, FY 2016.

He explained that by state statute, agricultural property's contribution toward local effort remains a constant 18.45%. This percentage remains the same regardless if agricultural land values go up or down. Any differences have to be made up in the other property classes. This law was enacted at a time when agricultural land values had flat-lined and the values of other classes of property were going up.

**Mr. Michael Houdyshell**, Director, Property and Special Taxes Division, Department of Revenue, began his presentation entitled, "Property Taxes in South Dakota: Current Status and Future Issues" contained within the presentation entitled, "K-12 Education Funding" (**Document #1**).

He said his goal was to provide a brief overview of the subject and a common framework to which everyone may refer.

Mr. Houdyshell said the property tax is required both constitutionally and by state statute. The three classes of taxable property are agriculture, owner-occupied, and other. As a general premise the valuation of property for taxation purposes shall never exceed the actual value. Property taxes support all local governments. Citizens are concerned, and they do not like paying property taxes, but he said it is critical that they do.

Mr. Houdyshell then provided a short history of how property tax evolved in South Dakota and highlighted the main issues.

**Senator Rampelberg** asked what revenues replaced the 30% tax reduction on owner-occupied and agricultural property implemented in 1995. Mr. Fred Baatz, LRC Principal Research Analyst, provided the committee a handout entitled, "Where the Money Comes From For Your Property Tax Reduction: Was It a Tax Shift?" (**Document #2**).

Mr. Houdyshell proceeded to explain the five steps to determine the yearly property tax bill. The five steps are: Establishing the Assessed Value of Property, Determining the Taxable Value, Establishing the Tax Rate, Computing Taxes, and the Tax Bill.

In response to Senator Vehle, Mr. Houdyshell explained how each county director of equalization works with the Department of Revenue to annually assess and determine the taxable value of each class of property. For commercial property and homes, actual sale prices are used, but for agricultural land, the productivity method is used.

Chair Munsterman asked whether it is fair for the counties to be in the business of assessing properties. Mr. Houdyshell said that some states do it differently, but in South Dakota the sixty-six county directors of equalization have been given this responsibility. The Department of Revenue insures that county properties are assessed at their taxable value.

Senator Rampelberg said that some believe schools get less money when the equalizing formula is applied. Mr. Houdyshell said that if properties are under assessed, then the equalizing factor is applied as a means of getting them into compliance.

Representative Sly asked if there are advantages to under assessing a property. Mr. Houdyshell did not see an advantage and said it is of no benefit to counties to keep the assessments low.

At the request of Senator Vehle, Mr. Houdyshell will provide the committee with the sales assessment ratio for every county tracked by class, agricultural, and non-agricultural.

Mr. Houdyshell explained that for agricultural land, the Department of Revenue is operating within the confines of a tiered system for phasing counties into full and true value.

Senator Vehle noted that the number of students is the only factor that can change the cost of the per student allocation. If there is more local money, then less state aid goes in. School districts get the same amount of money per student through the formula no matter how much local taxes are paid. Mr. Houdyshell said this was a good summation.

Mr. Houdyshell said the Department of Revenue is required to annually certify all tax levies of all taxing jurisdictions, some 1,800 in South Dakota.

He said that any local government entity that can levy and collect taxes on your property has to comply with property tax limitations; the exception being that schools must comply with the Cutler/Gabriel provisions.

Referencing the PowerPoint slide, "Valuation by Class", Mr. Houdyshell said it provides the summary for the 2014 total statewide valuation by class, with all figures equalized to 85%. He said the 2014 property taxes have not yet been calculated.

Referencing the two charts detailing agricultural cropland and noncropland productivity valuations by county, he said that 2019 is the drop dead point for taxes paid in 2020. He said that by 2020 all counties should be up to the full productivity level. Presently most of the

counties are up to full productivity valuations for noncropland; however this is not so for the cropland valuations.

Mr. Houdyshell said productivity values are established annually. They are based on an eight year Olympic average. He said the Olympic average on the crop side, on an annual basis, has increased considerably.

Every year, the department works with South Dakota State University (SDSU). Using national agricultural statistics, SDSU determines the land value within the state on a county by county basis. This taxable value is then spread across the county based on soil types. The soil ratings were established in the 1980's. The only change in establishing the taxable value has been the application of productivity.

Mr. Houdyshell said the reason for the productivity model is to get agricultural assessments to where they need to be. Prior to productivity, agricultural land was under assessed. With productivity he said we are getting more value on the books, especially for the croplands. With the phase-in model being used, there has not been a big one-time increase.

Representative Wismer asked what the amount of state aid dollars would be if all the counties were at 100% valuation today.

Ms. Darnall stated that with Cutler/Gabriel the agriculture mil levy is set to target the same share of local effort, so looking at a statewide basis, agriculture will still pay the same percent.

Chair Munsterman asked that Mr. Houdyshell continue the next part of his presentation, Capital Outlay Taxes, at the July committee meeting. He also moved the Department of Education's presentation on Capital Outlay Debt and Other Revenues to next month.

Chair Munsterman recessed the committee at 12:35 p.m., and reconvened it at 1:05 p.m.

**Dr. Melody Schopp**, Secretary, Department of Education (DOE), began her presentation entitled, "A Department Perspective: Leveraging Funding to Support Student Success" (**Document #3**). She said she wanted the committee to understand the statewide initiatives presently supported by state dollars and whether those initiatives are working. If they are not working as planned, she explained what the department is doing differently.

She encouraged the committee to keep focused on the Department of Education's priority goal: that all high school students graduate college, career, and life ready. She said this outcome should be the only reason for putting state money into education.

Focusing on the priority goal, the department has four primary objectives. They are: that students enter the 4<sup>th</sup> grade proficient or advanced in reading; that students enter the 9<sup>th</sup> grade proficient or advanced in math; to eliminate the gap for Native American students; and that high school students graduate postsecondary and workforce ready.

She said state funding provides a foundational support that would not otherwise be available. This support is cost-effectively being coordinated on a statewide basis. It has decreased

school district costs while also providing tools, support, and good information for administrators, teachers, parents, and students.

Dr. Schopp said the department is customizing professional development training by school district. As for the summer reading program, she said a student that reads five books during the summer will mitigate the typical summer reading loss.

Dr. Schopp emphasized that the Jobs for America's Graduates program has a proven track record and that it does make a difference. It is focused on school districts with the highest dropout rates.

She said the SD MyLife Portal is a great resource that should work better. The DOE is making improvements in the program, and that by August, 2014; it will be easier to access.

Dr. Schopp said the department is evaluating why more students are not taking advantage of remediation coursework. The department is being proactive and taking a different approach to get better information disseminated, and she hopes for better results next year.

Dr. Schopp said that advanced placement courses are higher level courses that are offered at no cost to the students. She said some really remote areas such as Bison and Timberlake are doing very well with these courses.

Dual credit support gives the student the option to earn both high school and college or technical school credit at the same time. She said that if, upon graduation from high school, the student already has a college or technical school transcript, that student is more likely to continue their postsecondary education with that school.

She said the DOE works with the Department of Labor to offer the National Career Readiness Certificate at no cost to students. When students have this certificate in hand, it shows employers that they have the necessary workforce readiness skills.

Dr. Schopp ended her presentation by saying the goal of education used to be to teach students to read, graduate them from high school, wish them good luck, and send them on. Today the education system is being geared towards high school students graduating college, career, and life ready.

Dr. Schopp said when putting state dollars into a program, it is appropriate to ask what impact the dollars are making. If this question cannot be answered, it is time to stop or readjust. She said any adjustments should be based on supporting facts and data.

Dr. Schopp then responded to committee questions.

Per Senator Vehle's request, she will provide the committee with NCRC student participation data. She said the DOE is working hard to increase the awareness of this program.

Representative Sly asked if there are additional needs requiring state funding that Dr. Schopp hadn't discussed. Dr. Schopp referred to the No Child Left Behind waiver. She thinks the waiver provides the impetus for the department and school districts to accomplish things. She

said the waiver has allowed support in the area of teacher evaluations and that over 5,000 teachers are being trained this summer. She said that it is important to hold schools accountable, but that the waiver should not be the driving force; our priority goal should be the driving force.

Dr. Schopp said the results of the statewide assessments and school district surveys will be shared with legislators this next session. She said the assessment was done to help support, and provide additional tools for teachers.

Senator Rampelberg asked if all the school districts are prepared for the Common Core Standards. Dr. Schopp said that to determine the readiness of the school districts, this past year the department surveyed every district. The department took this data, made a stoplight report, and sent coaches to every school district to talk about the importance of the standards. The survey was used to develop a menu of customized training that districts can use next year. Not every district had responded to the initial survey. The department has now met with the school districts and their administrators to stress the importance of completing the survey. Next fall another survey will be conducted.

Dr. Schopp said that everyone is aware of the highest performing schools and those at the bottom of achievement. Rather than being punitive, it is more effective to give the school districts options and let them pick and choose from those options.

She said she will provide Chair Munsterman with the amount of state dollars used to support foundational infrastructures. Dr. Schopp said that remediation courses can really help the student whose ACT scores are just a little off the mark.

She will also provide the committee with further information as to the specific numbers of students taking dual credit courses.

Chair Munsterman said the committee would like to take a look at the stoplight reports, with the school names taken off, to see the rankings. He questioned whether there is a connection between the funding formula and the department's goals. He asked with dollars spent today, how do we drive educational outcomes? Dr. Schopp said that state support of the programs talked about today is complementary to the department's goals. Dr. Schopp said it is critical that the state continue to provide foundational support funding as it affects every school's day to day operations.

She ended her presentation by encouraging the committee to keep its focus on the priority education outcome goals. She said what we can do as a state should go hand in hand with these goals and should not be separated. For each piece of the puzzle, she encouraged the committee to ask why we are doing it while keeping an eye on the outcome.

### **Public Testimony**

**Dr. Wade Pogany**, Executive Director, Associated School Boards of South Dakota (ASBSD), said the biggest successes of the last session were the education conversations that took place, and he sees the committee as a vehicle to continue those conversations. He said he hopes the committee will decide to focus on one or two main topic areas. He suggested that

teacher recruitment and teacher salaries both need to be addressed, and that ASBSD resources are available to help the committee.

Chair Munsterman invited Dr. Pogany to make a presentation to the committee on the priorities identified by the ASBSD.

**Ms. Joy Smolnisky**, Executive Director, South Dakota Budget & Policy Institute (BPI), suggested that the committee look at education funding on a long-term basis and look for long-term trends. She said the committee could look at state aid to education before the current funding formula took effect, and how that formula has changed state aid to the schools. Ms. Smolnisky said the BPI would be happy to share research information with the committee. For example, she said BPI's research suggests teacher salaries have not changed since 1969. She suggested the committee look at what methods have been used within state agencies, for example, the State Investment Council, to bring employees up to market level salaries, and to consider whether those methods would be appropriate for schools.

**Mr. Rob Monson**, Executive Director, School Administrators of South Dakota (SASD), said that this year 125 school districts reported a total of more than 800 teacher vacancies, and as of May 28, 2014, over 200 of these positions were still open. He said schools are struggling to find teachers in all areas and he is worried there will not be replacements for the veteran teachers who are retiring. Mr. Monson said there has also been a recent turnover of 37 superintendents. Some schools fill these positions from the teaching ranks, adding to the shortage of teachers. He said the committee needs to look at this problem, and that the SASD can be a resource for further information.

**Ms. Sandra Waltman**, Government Relations and Communications Director, South Dakota Education Association, asked that the committee look at how to support teachers in the classroom. She referred to the Commission on Teaching and Learning, which was developed about a year ago. The commission consists of twenty retired teachers who are willing to help the committee and offer feedback.

### **Committee Discussion**

Chair Munsterman asked the committee members to share their ideas as to the educational outcomes they want to improve.

Senator Rampelberg believes there are not enough graduating teachers in South Dakota to fill the vacancies caused by retiring teachers and school administrators. He thinks this committee should address the problem. He would like to see what different school districts are doing in terms of succession planning. He said there are innovative solutions such as the combining of school districts, sharing of teachers, online learning, and changes in sports management. He said this type of planning takes leadership courage and would entail more than just asking for money.

Representative Wismer said she's concerned about the graduating teachers South Dakota is losing to other states. She thinks the education funding proposal should be a priority. She referred to the legislation proposed by Representative Dryden during the 2014 legislative session, saying it included ideas which she likes and that the committee should examine.



Senator Vehle focused on the Department of Education's goal of graduating students who are college, career, and life ready. He noted the importance of life skills. He thinks the following information should be available to the committee:

1. the average age of teachers in schools in three different size categories;
2. the level of reserves in school districts, and how that compares to spending levels;
3. the amount of capital outlay funds used in school districts for purposes other than for what they were initially intended;
4. the amount of capital outlay funds per student per district;
5. a presentation of teacher salaries in correlation to the cost of living; and
6. the percentage of students who upon high school graduation go on to pursue postsecondary education, and how many of them graduate from postgraduate studies.

Representative Sly said that increased dollars are not necessarily linked to higher achievements. She said school leadership is key; a school can have good teachers but still lag behind without leadership. She said the Department of Education has laid out a good groundwork, and the committee needs to keep in mind the educational outcomes as outlined by Dr. Schopp.

**Senator Brown** is comfortable with the outcomes as identified by the Department of Education. He said the committee's next job is to put together the pieces to reach those goals in an efficient manner. He would like to see state resources used to create an effect. He said, for example, remediation is an area where there can be a positive outcome. The need is easily identifiable and programs can be put in place to address the issue without a lot of effort.

**Representative Conzet** said the question of school reserves is a large one for her. She would like to know how the funding the state is giving the schools is being spent. Others have told her the system is broken. She agrees that more money does not necessarily improve achievement.

Chair Munsterman said that Dr. Schopp has provided the committee with the main goal and the four objectives of the Department of Education. He said now the committee needs a report from her on the core measures for those goals and objectives. What needs to be measured other than proficiencies?

A discussion on school reserves continued.

Responding to a question from Representative Sly, Senator Rampelberg said that schools are paid twice per year from the counties, and they need enough in reserves to pay their expenses between payments. He believes that a fifteen percent reserve is generally sufficient. However, he does know of school districts that have much larger reserve balances.

Senator Vehle noted that he is interested in a school district's actual reserves, and not the district's checkbook balance.

Senator Brown said he believes some schools prepare their next year's budget based on the previous year's budget instead of basing it on actual expenses. He wants to know how widely that occurs.

Chair Munsterman wondered who could speak to the committee about these reserve questions, and Senator Brown thought perhaps Legislative Audit or the school associations.

Representative Wismer said it would be helpful to have an extended discussion on what we mean when we say reserves, as she is hearing different interpretations.

Chair Munsterman reviewed for the committee the final objectives of last year's Legislative Planning Committee as outlined in its report entitled "Workforce Development for South Dakota, Strategic Planning Brief".

### **Planning for Future Meetings**

For the next meeting which will be held in July, Chair Munsterman noted that he wants to complete the discussion on capital outlay funds that was postponed at this meeting. He also wants to discuss school reserves, and to review the bills brought forth by Representative Dryden this year. The committee will also likely hear from the ASBSD and other groups which may have ideas regarding succession planning for teachers.

Chair Munsterman, in closing, said the committee will probably meet in July and August for sure, and possibly October.

**Representative Rampelberg moved, seconded by Representative Conzet, to adjourn.** The motion prevailed unanimously on a voice vote.

The committee adjourned at 3:07 p.m.